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A NOTE ON DEVELOPMENT PLANNING AND THE ROLE OF THE ENTERPRISE

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It is becoming increasingly realized that one of the most difficult problems for state policy with respect to the formation of government plans to promote economic development and to control an economy relates to the role of the enterprise (the "firm") in economic life. Apart from agriculture, it is in this area where the failures of central planning in the socialist economies have perhaps become most evident in recent years, and the changes that have been taking place in the economic management of these economies are to a large extent the direct result of the failure of earlier conceptions of the relation between the enterprise and "the plan".

But the problem is important also in so-called "mixed" economies where there is a significant private sector in industry, although here it appears in a different form and is usually posed as the problem of the relationship between the "private sector" and the "public sector". Any general economic plan must be concerned with the relation between these two sectors and it is usually recognized that the firms in the private sector will only fulfill a constructive role under certain conditions of freedom and security. But the plan must also be concerned with the proper role of firms in the public sector, where the general question of the relation between the growth of the firm and plans for the economy is much the same as in a centrally planned economy.

In a socialist economy the firm or enterprise is publicly owned, and in the socialist countries of Eastern Europe the problem of the role of the enterprise is receiving much attention, notably in Czechoslovakia where far-reaching changes in the economic system have recently been introduced. In discussing these changes, one Czech economist, for example, explained that an

> "...important goal of the changes in the system of management is to make the economy more dynamic. The previous concept understood economic development only as a collection of quantitative relationships, so that it was essentially static. With this conception, the most important task of planning to assure economic growth was to attain as high a rate of growth in savings as possible... there is now a new concept of relations between enterprises and society. Formerly this relation was founded on the principle that society decides for the enterprise how much it should save and the enterprise was then obliged to pay into the State Budget the planned profit. Applying this principle led, of course, to a number of anti-social tendencies... If a complex and integrated management of the enterprise is to be made possible... it is essential for the enterprise to have considerable freedom in managing its own finances, for it to decide itself how it can use its money, for instance, on wages or on investments, etc."[1]

Central planning can and does take a variety of forms with varying degrees of direct control over enterprises, but the notion that central planning of some kind is desirable for an economy rests primarily on the assumption that the "market" left to itself will not bring acceptable results in resource allocation, economic stability, income distribution and various other economic and social objectives. In particular, private profit and private control of industry are deemed inadequate as the guiding principle and the primary means for the regulation of economic activity. Nowadays, very few would quarrel with this assumption (although the further assumption of some socialists that these are not only inadequate but also immoral is, of course, another matter). Most economists recognizd that some form of

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[1]Miroslav Sokol, "Changes in Economic Management in Czechoslovakia", <u>Czechoslovak Economic Papers,</u> No. 8, 1967. pp. 12, 13, 15.

government economic management is desirable and the areas of controversy is largely limited to debate over the scope and form of such management.

The "Static" Nature of Plans

Many development "plans" are little more than a series of hoped-for projects; others involve the determination of a desired pattern of output in more or less detail for the economy as a whole including the division of the national income between consumption and investment, which is supposed to determine the rate of growth of the national income, the structure of industry, again in more or less detail, the allocation of manpower, etc. Available resources are appraised in both real and financial terms, and the planning process essentially involves the allocation of resources and flows of finance in accordance with the desired pattern and growth of output. In the more technically sophisticated planning, macroeconomic models of the economy are created, input-output tables constructed, and the whole complicated technical apparatus of modern "quantitative economics" is brought into play.

As Mr. Sokol pointed out in the passage cited above, a plan conceived of as a series of projects or of macro-economic quantitative relationships is essentially static. It is static in the sense that there is no built-in mechanism to induce changes in unforseen directions in response to changing circumstances. An economy where the activities of enterprises are governed entirely in accordance with "targets" determined in advance by a central plan will not itself be characterized by an endogenous or organic process of growth in the sense that movement from one position to another is a result of an interaction between the producing enterprises and their environment.

there is, of course nothing to prevent the growth of such an economy as investment takes place according to the plan, but in a very real sense the growth is a growth imposed from above, its efficiency depending on the "preferences", that is, the theories, of the planners. These preferences may be appropriate, and a satisfactory rate of growth may be achieved -at least for a what- but it can hardly be said to result from an inherent "dynamism" in the economy itself in the sense that is usually implied by the term "self-sustaining" growth.

There has been a great deal of discussion in economic literature about the pre-conditions for "self-sustained growth", and the importance of raising the rate of saving to some allegedly critical percentage of income is given pride of place. But if this term means anything at all it surely means that there is somewhere built into the economy a dynamic relationship which by its very nature both creates investment opportunities and promotes further investment. This is not characteristic of a plan, nor will the mere raising of saving and investment in some way or other produce such a result. It is only achieved when individual productive units-the firms-are continually and restlessly searching for ways of expanding. In this process lies the primary source of economic dynamism.

In theory, a plan can be made dynamic through the introduction of appropriate procedures for revisions in the light of events, but this is more like a model of "comparative statics" than a model of dynamic interrelationships. In principle such interrelationships can also be incorporated into planning by the introduction of "feedback" and response systems. This involves an elaborate "computarization" of the economy and, so far at least, the fruitfulness of models of this sort as a means of centrally controlling an economy remains to be demonstrated. They are essentially mechanical models and whether they can take adequate account of, or give adequate scope to, the contribution that can be made by the judgement and genius of a myriad of individuals in the society needs much more investigation than it seems to have had.

In any event, as noted above, the experience of many of the Eastern European countries has not so far been satisfactory in this respect; their difficulties have, to a large extent, stemmed directly from the inability of the planners to take adequate account of the role of the enterprise and the nature of its growth. Not only have the "preferences" of planners often proved grossly inadequate (and the theories of development or growth exposed by the planners are predominant and crucial in a planned economy) but the reactions of the enterprises in the economy to the framework imposed on them by plans have often been perverse. Moreover, for countries that must depend heavily on a diversified variety of manufactured exports, freedom of enterprises to respond directly to the market may be of decisive importance. As is suggested below, this may be vital for the future of Egypt.

The Role of the "Firm"

In any economy, the basic unit of industrial production is the firm or enterprise, for it is the firm that acquires the factors of production, organises them in the productive process, designs the methods of production and the products, and usually surveys markets and arranges sales. In particular, the firm is the organization through which innovations are put into practice. The enterprise I am calling the "firm" is more than a factory or plant, that is, more than a physical producing unit operated by workers and managers to produce the types and quantities of goods for which the plant is designed. A firm is an organization which, in addition to operating one or more factories, has the broader task of selling goods, searching for markets, raising finance, including finance for expansion, determining its pattern of output and the use of its resources in new ways. In a "market economy" it is the primary dynamic unit, acting as an intermediary between final purchases of products and the sellers of productive services.

An established firm is a continuing organization of people knit together in a defined institutional framework working to obtain an income which is in part paid out to the suppliers of productive services (including management), in part to owners (who may be private individuals or governments), and in part retained for further investment. To this end, an enterprising firm often undertakes research of various kinds, promotes inventive activity among its people where practical, and experiments with new ways of producing and selling its existing products or with the introduction of new products, and expands in new directions. Many of the activities that firms in a private-enterprise economy engage in may be considered socially undesirable or even economically disadvantageous to the economy as a whole, but this is another question. The point I am trying to make here is that the firm is the elemental focal point of point of economic dynamism. If for any reason firms are unwilling or unable to act in an enterprising manner which furthers the industrial development of the economy there will be no other source of dynamic industrial growth to call on.

Planning and the Role of the Firm

It is widely alleged that in underdeveloped countries private firms and individuals have in the past, and still are, unwilling or unable to take on the task of industrial development, lacking either the ability to overcome the peculiarly difficult obstacles in a backward economy, the enterprise to attempt to do so, or the incentive to take up industrial pursuits in contrast to commercial or financial activities or speculation. In consequence, government action is held to be required not only to create the necessary infrastructure and accept the necessary risk involved in the establishment of industrial plants, but also to control and direct the activities of the "private sector". Again, there are probably few who would challenge the proposition that considerable government action is required to speed up and direct development and that for such action government should plan carefully what they want to do. In most countries nowadays some sort of macroeconomic plan exists. It is not my purpose to attack such planning but to suggest that in many countries, including Egypt, planners have taken inadequate account of the dynamic role of the enterprise in the process of growth, and in consequence of the importance of giving sufficient scope for its expansion as the initial conditions which may have inhibited its growth change. It is obvious the mere freedom to expand is not enough to ensure dynamic behaviour on the part of firms, but I shall argue that a development policy is not likely to produce self-sustaining growth until it first induces and then gives scope for such behaviour.

I should like to make clear that the problem discussed here is not, in principle at least, related to the question of whether or not enterprises are publicly owned. It has long been standard in the analysis of business enterprises to distinguish between ownership and management, and it is widely recognized that for large firms in any event, the effective control of the firm, including the making of fundamental policy, lies primarily with management. Indeed, one could make a strong case for the proposition that the chief significance of private ownership is that it permits the existence of capital and stock markets, and that the chief essential difference between a privately-owned large firm and a public enterprise is that the former can raise risk capital from private markets. In addition, in the private sector new firms come into existence in a different way. In this paper, however, I am not concerned with the problems of public ownership, but with the relation between a central government plan and the freedom of action required by enterprises if they are to become the source of an organic and dynamic growth in the economy. If we leave aside the problem that arises for private enterprise in a mixed economy when government policy regarding private firms is either frankly antagonistic or simply vacillating and unclear thus creating such an atmosphere of uncertainty that firms refuse to take risks or make heavy commitments, there are broadly three ways in which the scope for enterprises which would permit them to fulfill a dynamic function, tends to be inhibited by government planning:

1. By the government telling firms what to do and prohibiting independent action and especialy investments without prior approval.

2. By the absorption of scarce resources in new projects or in projects imposed by the "plan" on such a scale that existing enterprises are denied adequate resources.

3. By the imposition of regulations which destroy or pervert the incentive of the firm itself, or of its managers, to take special risks or make special efforts.

The first occurs in the so-called "command economy", which has been characteristic of a number of Eastern European countries and is apparently what some Egyptian economists had in mind when they argued for a widespread nationalisation of industry on the ground that this would enable the state to control and direct the flow of investment in the economy. A hierarcy of government agencies of one kind or another has been set up in Egypt to control the investment of enterprises in accordance, in principle at least, with the plan.

The second occurs most commonly when the plan envisages the construction of new projects, and especially large ambitiously designed projects, which absorb the greater part of the foreign exchange available, thus creating a "foreign exchange shortage" which compels the government to refuse permission for the expansion of existing enterprises in many projects even universally accepted as desirable. It should be remembered that any government can in this way create a "foreign exchange shortage"; as will be argued below, such a course may be particularly dangerous for an economy which must depend on the development of a diversified range of manufactured exports. Again, there is reason to think that this kind of policy has inhibited expansion in Egypt.

The third way in which the dynamism of enterprises may be restricted tends to occur in economies where certain types of social policies, in particular, policies with respect to income distribution, are carried to great lengths without regard to their economic consequences, or where the enterprise is prevented from establishing a direct relation with the market, as is the case when it is required to sell through an intermediate selling organization which has no connection with it.

Let us now consider in more detail and in the light of the nature of the firm and of its growth, the way in which these three types of restrain on enterprise affect the firm.

Direct Control of Activities of Firms

Like other human organizations, an enterprise involves the life of the men who work in it and, if it is to operate effectively, must call forth some sort of commitment from them, especially from those whose function is to undertake responsibility and devote what talents they have to creative, non-routine activities. Men seem to try to find a satisfaction or meaning in their working lives by identifying themselves with the institutions in which they work and finding in the success of the institution a purpose worthy of the commitment they make.[1] Cooperation to this end leads to the development of the firm as an organism in its own right which establishes its own goals and reacts aggressively or defensively to the outside world to advance its interests or to protect itself from the adverse consequences of external events. The psychology of social organizations is not within the special expertise of economists and I have not space to analyze this aspect of the problem here. But since economics is a social science, such psychology

[1] It is partly for this reason that a closer association of "the workers" with the control of the firm is often deemed desirable, but there is a difference in kind between activities that involve the acceptance of personal responsibility for a large variety of matters, the need to make important decisions affecting the firm as a whole, the organization and management of other men, and in particular the need to exercise imagination and creative judgement, and the routine activities undertaken by the majority of workers. It is sometimes feared that the latter will necessarily be "exploited" or unjustly treated if they do not participate in management, or believed that since workers too are part of the firm they have a natural right to participate in the control of it. Thus, in some countries (and in some firms in all countries) arrangements are made to enable them to do so. Whether or not such arrangements exist makes no difference to the argument put forth above, which is not concerned with the composition of management but with the scope to be given it.

treated as passive agents executing other people's decisions; they will inevitably react creatively or perversely according to the circumstances.

The central planning of a "command economy", in principle at least, tells the firm what it ought to do both in terms of targets to be fulfilled and in terms of the general policies governing its operations. It is true, that even in such an economy, planning starts to a considerable extent from the bottom up, so to speak. Firms are consulted about their requirements and objectives and they put forth their own plans for consideration. They are not left out of the planning process. Nevertheless, the "coordination" of the plans of firms in the light of the overall "strategy" adopted for the economy is in the hands of a variety of superior organizations, which make the final decisions, hand down the targets and instructions, and lay down the criteria according to which the success of firms will be judged. The scope for enterprising activity on the part of firms is thus confined to their participation in plan-making and in putting forth suggestions for revisions, but always supject to the higher authority of the controlling organizations. A variety of techniques for decentralising decision-making can be built into the structure of control, but this is merely another way of saying that the firm may be given a certain amount of freedom or autonomy in particular areas. But at some point such freedom for the enterprises becomes incompatible with central planning of this kind, which rests on the assumption that a coordinated plan governing the actions of firms will give better results than would be achieved by allowing firms to react to opportunities without reference to the objectives of an overall plan for the economy.

With this approach to the relationship of the firm to the plan, several problems arise. In the first place the plan may be wrong in important respects, wrong in the sense that it requires actions of the firm which are patently unreasonable or it prevents the firm from taking action that is patently sensible. If one is to rely on the criticisms of economic policy that have been published in socialist countries, such results are common, ranging from the simple over-production of goods the market will not absorb as a result of attempts by firms to fulfill the targets given to them, to the employment by the firm of workers it cannot use (and which may even be in demand elsewhere) in order to fulfill their employment targets. If the firm at the same time is required to make profits to fulfill financial targets, it often reacts to protect itself from the adverse consequences of failure, by maneuvering to obtain especially low targets, by using its resources inefficiently in order to justify higher prices, by altering the quality of products, etc. Here the scope for "enterprise" may be very great as the "organism" engages in defensive maneuvres in its own interest, but the "enterprise" is of course perverse from the point of view of the growth of the economy.

These are negative results of enterprise. If we turn to the more positive side of the enterprising activities of a firm, a problem arises when the economic limit in the expansion of the size of the market (which may be a function of transport costs) or because of its rate of growth, alternatively, firms often find fairly early in their career that they can profitably enter new lines of activity while continuing to expand in existing lines. This is commonly due to the fact that the rate of growth of the market for their existing products is insufficient to absorb the resources available to the firm, especially its managerial and entrepreneurial resources together with the specialized knowledge it may have obtained about the potentialities of its markets, the raw materials it produces, or of related products.[1] In underdeveloped countries, in particular, an individual firm may often find advantages in moving forwards or backwards in the industry in which it is engaged or in producing some of its own requirements. In this respect the normal expansion of a firm pays no attention to the conventional categories in which industries are classified. The organization for the control of industry in accordance with a plan, however, is likely to be set up in accordance with such categories, and each firm will be classified as belonging to some particular industry. If a firm puts up a proposal for expansion which cuts across the organisational categories, it may be natural, logical and efficient from the point of view of the firm but illogical to the tidy minds of the bureaucracy. It is not difficult to see why such proposals may cause much in-fighting among the control organizations concerned. If, for example, there is a controlling organization which includes the rubber industry and another which includes automobile manufacturing, any attempt of a firm classified in the latter to produce its own tyres is likely to meet opposition from the former, which may insist that there is excess capacity somewhere among its own factories which could be turned to tyres. The issue is likely to be decided according to the balance of bargaining power among the controlling organizations without reference to the nature of the intangible qualities of management or enterprise which may have given rise to the proposal in the first instance.

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[1] I have discussed this aspect of the growth of firms in some detail in my <u>Theory of the Growth of Firm</u> (Oxford. Basil Blackwell. 1959).

Each industrial firm is unique in the same sense that each human being is unique, for it consists primarily of a collection of particular individuals operating in a specific set of circumstances which are not duplicated elseqhere and each has a unique history. This uniqueness gives rise to unique opportunities for each particular firm in addition to the opportunities that are open equally to all firms in particular lines of activity.[1] The natural course of expansion of a firm involves change and continual innovation regardless of the existence of industrial "census categories", which are convenient (though often misleading) statistical boxes irrelevant to the course of change and the process of growth. To impose restraints for such reasons on the expansion of firms can well be fatal to the development of self-sustaining growth of the economy, for it may not only prevent firms from taking advantage of the unique opportunities that come their way, but even kill their incentive to do so. The restraints are imposed in the name of "coordination", but coordination of industrial activity that takes the form of an allocation of activities and targets to firms in accrdance with static statistical classifications designed for other purposes, takes no account of the nature of the growth of firms and gives rise to a severe conflict between the imperatives of economic growth and the provisions of the plan.

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1 This point too has been developed at greater in my <u>Theory of the Growth of the Firm.</u>

Diversion of Resources from Existing Enterprises

Many of the things that firms want to do will be "little things", in the sense that they appear insignificant to the planners against the background of the "big projects" which seem to have preference in the formulation of a strategy of growth. And this leads us into a discussion of the second way in which planning may interfere with the dynamic function of the firm, especially from the point of view of the development of underdeveloped economies. The first point to note is that as yet economists know very little about the process of economic development. There are many (competing) theories, some stressing balanced and others stressing unbalanced growth, some emphasizing light and others heavy industry, or capital-intensive or labour-intensive techniques, some insisting that agriculture must have priority and others that this should be given to industry, etc. But a reasonable body of agreed and tested knowledge is still to come. In view of the insecure theoretical foundations for development planning, it is highly probable that in very important respects any plan is likely to be seriously deficient, and if the plan is wrong projects will be started that are inappropriate, activities will be forced on existing firms that are uneconomic while other activities are restricted. The result is demoralization of management, discouragement of enterprise, and inefficient investment. It is reported, for example, that in Czechoslovakia the capital/output ratio began to appear negative in the early 1960's, presumably largely as a result of malallocation of investment. The national income statistics of a country may show a rising income when investment expenditures take place regardless of whether or not the new plant when it comes into operation will be productive, for such expenditures are themselves counted as part of the national income. But if the investments turn out to be unproductive, no permanent increase in income occurs.

In underdeveloped countries there is reason to suspect that much inappropriate investment takes place. This is sometimes defended as an inevitable part of the trial-and-error process of development-as no doubt it is-and in any case as providing a useful means of shaking up a "traditional" economy because of the general ferment consequent on the expenditures and the activities accompanying them. But whether or not the large investment projects of the state are appropriately chosen, there is a grave risk that such projects will prompt such a large proportion of the available foreign exchange that the expansion of existing enterprises is stifled. And if the appropriateness of the broad economic theories adopted by the planners is doubtful in view of the uncertainty surrounding our understanding of the process of economic development, there is no strong presumption that the projects chosen by governments will in general be a better use of the resources available than the alternative projects which might arise if existing enterprises were encouraged and enabled to take advantage of the opportunities for expansion open to them.

Again, however, I should like to emphasize that this argument is not an argument against the government undertaking important projects deemed desirable for the development of the country, and especially those projects that create the necessary infrastructure. Nor can one assume that every proposal for expansion by existing enterprises should be sanctioned, but there is much to be said for giving priority _in principle_ to projects that existing firms want to undertake, providing that they are not obviously inconsistent with the objectives of development. This is, of course, a vague proviso, but if the importance of promoting dynamic behaviour on the part of firms is accepted then a presumption that the proposals of existing enterprises should be given priority in principle would go a long way towards achieving this end. Many of these proposals are likely to involve relatively small investments, but in total the sum of them could well be quite large. Moreover, many of them in the nature of the case may be for the production of products that require no subsidy and little or no protection, thus laying the foundation for potentially competitive exports. For Egypt, this latter possibility may be of great importance.

It seems likely that Egypt's economic future will depend heavily on the possibility of developing a diversified range of manufactured exports as, for example, Japan did very early. Expansion of Egypt's existing standard exports is unlikely to be sufficient to support extensive further development and so far as the establishment of other obvious industries is concerned, such as petrochemicals, fertilizers, and iron and steel, etc., she is likely to find not only that it will be difficult to become competitive with exports from existing industrial countries, but that a number of other developing countries are thinking along the same lines. But given the level of industrial development already in the country and the supply of managerial and technical talent, which is by now very considerable, it seems reasonable to suppose that, with the application of more entrepreneurship, selling enterprise and energy, her existing firms could find numerous small opportunities for themselves. Indeed, even the few and brief discussions that I have had with those dealing with Egyptian industry convinced me that there was considerable scope for such expansion if the incentive and ability to undertake it were not almost deliberately impaired by existing policies, which are excused partly by the "foreign exchange shortage". But this "shortage" is largely a reflection of the fact that the government has chosen to use the funds available for investment in other types of project.

This raises the question of whether Egyptian planners and government officials may not be underestimating the potential of the existing enterprises in the economy. There seems to be a widespread assumption that from the point of view of entrepreneurship, managerial ability, and technical competence Egypt has not advanced very much in the past 20 years except insofar as the planners and government officials themselves take action. In my own discussions, the above proposals with respect to granting more freedom to firms to exercise their own enterprise and judgement were frequently met with the reply that in the past such entrepreneurship had not been forthcoming, which had made it necessary for the government to take over, and that there is no reason to assume that things had changed much in this respect. I did not have the impression, however, that anyone had tried to test this assumption. Furthermore, there is a widespread reluctance to trust individual managers even with foreign exchange to go abroad to find markets in which to sell their goods. It is possible that the static hand of control, by stifling entrepreneurship, thus justifies its own existence, while ignoring the possibility, which seems to me to be equally probable at this point in Egypt, that many of the "preconditions" for dynamic industrial growth have in fact been already created and that effective responses would emerge if permitted.

The Structure of Incentives

Closely connected with the problems just discussed is the third of the ways in which government policy may stifle enterprise, and I believe is in fact doing so in Egypt. This relates to the absence of incentive for managers of firms to exert themselves in any special way except for patriotic reasons-which can never be an adequate foundation for continuing long-term activity. There is even little or no incentive for firms to make special efforts to export, and sometimes positive disincentives in this respect. The lack of incentive is of two kinds, one relating to individuals and the other to the firm. It seems to me that the general system of incentives in industry, and in particular so far as it affects potential exports, is one of the single most serious handicaps which the industrialisation of the Egyptian economy now faces.

I cannot take up the discussion of this problem in any detail at this point, which is in any event very well known, but so far as I can see little attempt has been made clearly to appraise its effects. Managers of aggressive and expanding firms must work very hard-there is no question of their working a 7 hour day or 5 day week for they live with their job, which often absorbs the greater part of their waking hours in one way or another. But there must be some incentive for them to accept such a strenuous life, an incentive which is directly related to the effort they exert. Clearly an inefficient bonus system or a ceiling on income which can be reached as early as 40 years of age which is just the age when a man can begin to make the greatest contribution to economic activity providing he is willing to accept responsibility and risk wholeheartedly-will call forth little such effort.

There is little question that this leads to demoralisation, lack of commitment and consequently a tendency to accept the routine tasks and refrain from exerting those special efforts with a consequent risk of ulcers! The potential genius of men is thus killed before it has had a chance even to develop, and the entire economy suffers.

The problem is not confined, incidentally, to the managerial strata, but exists at all levels. Wage differentials are often such that the abler worker cannot be rewarded in accordance with his productivity, with the result that he finds no incentive to do his best since the lackadaisical worker is just as well off as he is. It seems, however, that in factories considered to have the highest priorities, namely, military factories, the disastrous effects of such policies are more fully appreciated and higher wages can be paid. Without entering into matters of high policy, however, could not one suggest that in the end-or rather in the near-term future-the ability of Egypt to export, which will be essential if she is to support a fuller and more dynamic industrial development, may have an equally decisive effect on her future (even including her military potential)? "Exploitation" of workers is often defined as a failure by firms to pay workers in accordance with the value productivity of their efforts, and I submit that a wage system which prevents the payment of wages to the more productive workers which reflect their greater productivity can well be put under this head. Moreover, restrictions on the ability of enterprises to do so, together with excessive restraints on their power to dismiss the lazy and unproductive workers even interferes with the vital task of training new workers fresh to industry from the countryside. Many of these are not used to factory discipline and do not understand the necessity of meeting deadlines, maintaining quality, respecting machinery, etc. If, however, management has very limited power to insist on the necessary discipline such workers tend to continue with their inappropriate attitudes and inefficient activity, and the ability of the firm to train an effective labour force is equally limited, while at the same time the entire work force is affected adversely. It is important, of course, that workers are ensured fair treatment, but in the last analysis, the welfare of the Egyptian people, including the workers, will be seriously prejudiced if policies are maintained which prevent or retard the development of an efficient and dynamic industry.

The above is an exceedingly brief and thus necessarily dogmatic treatment of a very big problem, and I appreciate the need to take into account social as well as economic factors. I only insist that in the case of Egypt, with a frightening rate of population increase approaching 3% per year looming in the background, the economic factors are likely to be decisive.

The other type of incentive relates to the firm itself, quite apart from the individual incentives for management. As suggested above men have a tendency to identify themselves with the organization for which they work and in consequence they become discouraged and disgruntled when the organization is prevented from doing a job of which they can be proud, or when the system is such that the organization is faced with a conflict of the objectives imposed on it and must therefore fail in achieving one or more of them. This is partly the problem of multiple" success criteria", which has received considerable attention in Eastern European literature, and partly the problem of what happens when the plan is wrong, which

I discussed above. On the other hand, if it is desired to encourage firms to act in particular directions, they must be given particular incentives to doso. Although profit is an important criteria for judging the success of enterprises and an important incentive in almost all systems, the really effective incentive for an enterprising firm is the prospect not only of making profit but of retaining some of its earnings for expansion.

If the men in charge of a firm are enterprising, they will want to improve its factories, expand its activities, and have scope for putting their creative ideas into effect. This requires money, and in an under-developed country especially, it is likely to require foreign exchange. If the government appropriates the profits of a firm, and especially its foreign exchange earnings, while doling out investment funds in accordance with a plan, this incentive is almost completely destroyed. This problem is of especial importance for countries whose development depends heavily on their ability to produce a diversified range of manufactured exports, and if a government wants seriously to encourage firms to make special efforts in this direction it would do well to permit them to retain that part of their earnings which they could use in expanding and improving their plant.[1] In Egypt there seems to be little or no incentive for firms to make special efforts to export their products, incredible as this may seem to an outside

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[1] Of course, if the exchange rate underdevalues foreign currency, there might well be a tendency for managers to attempt to "modernize" their plant by importing capital equipment which is more appropriately used in economies where labour is scarcer than it is in Egypt. Methods might have to be devised to discourage this unless it can be shown that increased capital intensiveness would increase the competitiveness of the firm in export markets enough to offset the increased import cost as well as the adverse effect on employment.

observer. It is not surprising to me that, apart from special bilateral arrangements made with certain groups of countries, the growth in exports, and especially in the variety of exports, has been disappointing. In this connection too, it is important that firms be able to get into direct and constant touch with the foreign markets, and again in Egypt special obstacles are put in the way of their doing so. It is possible that bilateral trade agreements are to a large extent made necessary by the very policies of governments which restict opportunities and deny incentives for enterprises to export in other ways.

Conclusion

This paper has been largely a critique. I do not deny the importance of planning for development and I have not tried to suggest how such planning should proceed if it is to be effective while at the same time giving freedom to enterprises to expand in directions that seem profitable to them. I do think that the centralized control of enterprises by higher governmental authorities is inimical to the development of a dynamic industrial economy, and the experience of socialist countries, especially the smaller ones for whom exports are important, seems to support this conclusion. More attention is everywhere being given to decentralisation in planning and to the role of the "market", since the market is an alternative method of coordinating economic activity and allocating resources. But very little attention is being given to the study of the nature of the growth of enterprises in relation to planning. I have tried here to expound some of the problems; I have not put forward many specific proposals regarding how the relationship between the plan the enterprise might be worked out. Much can be learned from an examination of the methods of control and planning adopted in large diversified firms with many subsidiaries. But the analogy can be misleading and should be cautiously used, since there are great diferences between the relation of a firm to its environment and that of a country to the outside world. The chief purpose of this paper is to point to an area where further research is needed, research that must be related to the specific conditions of specific countries. It seems highly probable that there are opportunities in Egypt that are being neglected, especially export opportunities, and that some of the misdirected effort in present policies and plans might well be avoided in the future if sufficient attention is given to the importance of the dynamic role of firms in the process of growth.

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